

March 12, 2003



Financial Management

Processing General Services
Administration Rent Bills for DoD
Customers in the National Capital
Region
(D-2003-062)

Office of the Inspector General
of the
Department of Defense

Constitution of
the United States

A Regular Statement and Account of the Receipts and Expenditures of all public
Money shall be published from time to time.

Article I, Section 9

Report Documentation Page

Report Date 12 Mar 2003	Report Type N/A	Dates Covered (from... to) -
Title and Subtitle Financial Management: Processing General Services Administration Rent Bills for DoD Customers in the National Capital Region		Contract Number
		Grant Number
		Program Element Number
Author(s)		Project Number
		Task Number
		Work Unit Number
Performing Organization Name(s) and Address(es) OAIG-AUD(ATTN: AFTS Suggestions) Inspector General, Department of Defense 400 Army Navy Drive (Room 801) Arlington, VA 22202-2884		Performing Organization Report Number D-2003-062
Sponsoring/Monitoring Agency Name(s) and Address(es)		Sponsor/Monitor's Acronym(s)
		Sponsor/Monitor's Report Number(s)
Distribution/Availability Statement Approved for public release, distribution unlimited		
Supplementary Notes		
Abstract		
Subject Terms		
Report Classification unclassified	Classification of this page unclassified	
Classification of Abstract unclassified	Limitation of Abstract UU	
Number of Pages 41ht		

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Acronyms

BART	Billed Accounts Receivable Tracking
BMF	Building Maintenance Fund
CBR	Client Billing Record
DFAS	Defense Finance and Accounting Service
GSA	General Services Administration
NCR	National Capital Region
OA	Occupancy Agreement
PBS	Public Buildings Service
STAR	System for Tracking and Administering Real Property
WHS	Washington Headquarters Services



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March 12, 2003

MEMORANDUM FOR DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE
DIRECTOR, WASHINGTON HEADQUARTERS
SERVICES


SUBJECT: Report on Processing General Services Administration Rent Bills for DoD
Customers in the National Capital Region (Report No. D-2003-062)

We are providing this report for review and comment. We performed the audit in response to a request from the General Services Administration. We considered management comments from the Defense Finance and Accounting Service and Washington Headquarters Services on a draft of this report when preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. The Defense Finance and Accounting Service comments were responsive. Comments from the Acting Director, Washington Headquarters Services were generally responsive. However, we request Washington Headquarters Services provide additional comments on Recommendation B.2. by April 11, 2003.

If possible, please provide management comments in electronic format (Adobe Acrobat file only). Send electronic transmission to the e-mail addresses cited in the last paragraph of the memorandum. Copies of the management comments must contain the actual signature of the authorized official. We cannot accept the / Signed / symbol in place of the actual signature. If you arrange to send classified comments electronically, they must be sent over the classified SECRET Internet Protocol Router Network (SIPNET).

We appreciate the courtesies extended to the staff. Questions should be directed to Mr. Marvin L. Peek at (703) 604-9587 (DSN 664-9587) or Mr. Carmelo G. Ventimiglia at (317) 510-3852 (DSN 699-3852). See Appendix C for the report distribution. The team members are listed inside the back cover.


David K. Steensma
Deputy Assistant Inspector General
for Auditing

cc: Inspector General, General Services Administration

Office of the Inspector General of the Department of Defense

Report No. D-2003-062

(Project No. D2001FI-0126)

March 12, 2003

Processing General Services Administration Rent Bills for DoD Customers in the National Capital Region

Executive Summary

Who Should Read This Report and Why? DoD space managers and financial management personnel who deal with issues regarding rented building space obtained from the General Services Administration (GSA) in the National Capital Region. This report discusses the problems with processing and paying for rent bills.

Background. GSA provides Federal customers with various products and services including real estate and related services. The Washington Headquarters Services (WHS) is responsible for the oversight and management of administrative space occupied by DoD agencies and Military departments in the National Capital Region. DoD customers occupying space in buildings in the National Capital Region receive rent bills from WHS.

GSA requested this audit after the Inspector General, GSA reviewed unpaid rent bills and found that WHS was responsible for the largest dollar value of delinquent rent bills. A long history of billing problems existed between WHS and GSA. However, WHS and GSA resolved all prior billing disputes as of September 30, 1997. GSA billed \$781 million to WHS for space occupied by DoD customers in 161 buildings in the National Capital Region from October 1, 1997, through June 30, 2001. WHS passed on (rebilled) \$699.3 million of the \$781 million to DoD customers.

Results. Although WHS and GSA resolved all prior billing disputes at the end of FY 1997, they did not take appropriate actions to prevent the recurrence of billing problems in the National Capital Region. Specifically:

- WHS and GSA did not effectively process rent bills. WHS determined that GSA bills were incorrect and did not rebill DoD customers about \$81.7 million that GSA charged for space that DoD customers occupied at various times in 161 buildings in the National Capital Region from October 1, 1997, through June 30, 2001. WHS did not track differences between the amounts GSA billed and the amounts rebilled to DoD customers or effectively coordinate with GSA to resolve differences. Our detailed review of available records supporting the \$124.9 million charged by GSA and the \$116 million WHS passed on to DoD customers for 8 of the 161 buildings showed that GSA may have overbilled DoD by \$5.5 million, while WHS failed to rebill up to \$3.2 million in valid charges. WHS and GSA should form an integrated process action team to reconcile

significant differences between the amounts GSA billed and the amounts WHS disputed and ensure that credits are issued and posted for overcharges to WHS. To help prevent future differences from being unresolved for extended periods of time, WHS should establish procedures to identify, document, and track differences between the amounts GSA billed to WHS and the amounts WHS billed to DoD customers (finding A).

- The informal process for documenting and resolving disputes on GSA rent bills for space in commercial buildings in the National Capital Region was not effective and needs improvement. WHS and GSA need to document rent disputes on GSA Form 2992, "Adjustment Voucher for Standard Level User Charge Transaction," and periodically meet to resolve unsettled rent issues. Further, WHS needs to improve communication with DoD customers by providing a copy of the current occupancy agreement related to each lease and pertinent other information (finding B).
- DoD customers did not pay, or the Defense Finance and Accounting Service Kansas City, did not forward to GSA about \$20.7 million in rent bills passed on by WHS. To ensure that those funds are properly accounted for, Defense Finance and Accounting Service needs to followup with DoD customers to verify that outstanding amounts are paid and GSA has accurately posted payments to GSA records (finding C).

Management Comments and Audit Response. The Defense Finance and Accounting Service and WHS concurred with the findings and recommendations. However, WHS did not address the need to provide a copy of the occupancy agreements to the DoD customers in the National Capital Region. See the Finding section for an additional discussion of management comments and the Management Comments section for the complete text. We request that WHS provide comments on the final report by April 11, 2003.

Management Actions. Together, WHS and GSA have formed an integrated process action team and have begun reconciling the amounts GSA billed to WHS that WHS disputed. GSA has issued credits, totaling about \$3.8 million, for disputed WHS rent bills for the eight buildings. In February 2002, WHS and GSA reinstituted the use of the GSA Form 2992 to document rent disputes and have held periodic meetings to resolve unsettled rent issues. Through a mutual concerted effort, WHS and GSA have also resolved most of the occupancy agreement disputes.

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Background

General Services Administration (GSA). Reorganization Plan No. 18 of 1950 transferred to the Administrator of General Services most of the real estate management functions of the various Federal agencies. Specifically, GSA was given responsibility for acquiring space by lease and the assigning and reassigning of space in and the operation, maintenance, and custody of general-purpose office buildings owned and leased by the Government. The Federal Technology Service, Public Buildings Service (PBS), and Federal Supply Service are the three GSA service organizations. Executive Order 12512, "Federal Real Property Management," April 1985, directs the Office of Management and Budget and GSA, in consultation with the land managing agencies, to develop legislative initiatives that seek to improve Federal real property management accountability for implementing effective and efficient real property techniques by using appropriate private sector management techniques.

Inspector General, GSA Report on Billing Collection Processes. Inspector General, GSA, Report No. A000986/B/6/F01004, "Review of GSA's Billing and Collection Processes for Federal Customers," January 26, 2001, identified reasons for unpaid GSA bills and potential solutions for improving the billing and collection processes. The agency-wide review covered the three GSA service organizations. The review determined that GSA and its Federal customers were not reconciling the business accounts and effectively communicating with and providing information to each other. Although the Inspector General, GSA, did not make any recommendations, it concluded that GSA should use the work of the GSA/Defense Finance and Accounting Service (DFAS) Joint Solutions Team as a model to improve billing and collection processes for the most significant GSA customers. The GSA/DFAS Joint Solutions Team was formed in an effort to resolve a cash flow issue related to the non-payment of information technology bills for the Federal Technology Service.

Another area of GSA concern was PBS rent payments. The GSA FY 2000 Annual Report stated that PBS maintains an estimated 334 million rentable square feet of workspace for over one million Federal employees in federally owned and leased buildings. GSA requested our assistance in reviewing delinquent rent payments. GSA records indicated that DoD customers owed GSA about \$131.9 million in rent payments as of September 21, 2001. Of the \$131.9 million in rent payments owed, \$109.3 million were delinquent.

Rent Payments for Buildings in the National Capital Region (NCR). A high volume of the delinquent DoD rent payments was concentrated in the NCR. The NCR is 1 of 11 GSA regions. The NCR includes the District of Columbia and parts of Maryland and Virginia. The GSA realty specialists assigned to each region are responsible for capturing and recording data into the System for Tracking and Administering Real Property (STAR). The STAR is the GSA billing system. The PBS, NCR enters information into the STAR. The Finance

Division (GSA Finance) in Fort Worth, Texas, was responsible for collecting rent payments from Federal customers and recording payment data into the Billing and Accounts Receivable Tracking (BART) system.

Roles of DoD Organizations. The Washington Headquarters Services (WHS) is responsible for the overall DoD administrative space planning and management functions. The Real Estate and Facilities Directorate, Space Policy and Acquisition Division, WHS acquires administrative space through GSA and subsequently assigns, withdraws, and reassigns the space within DoD. WHS bills and provides other space management information to DoD Components. DoD Components send the rent payments to DFAS that in turn pays GSA Finance.

Objectives

Our primary objective was to evaluate DoD procedures for resolving delinquent GSA rent bills for DoD customers in the NCR. We also evaluated procedures for paying rent bills. See Appendix A for a discussion of the audit scope, methodology, and prior coverage related to the audit objectives.

A. Processing Rent Bills in the National Capital Region

WHS and GSA did not effectively process rent bills in the NCR. WHS determined that GSA bills were incorrect and did not rebill DoD customers about \$81.7 million that GSA charged for space that DoD customers occupied at various times in 161 buildings in the NCR from October 1, 1997, through June 30, 2001. WHS neither tracked differences between the amounts GSA billed and the amounts it rebilled to DoD customers nor effectively coordinated with GSA to resolve differences. Our detailed review of available records supporting the \$124.9 million charged by GSA and the \$116 million WHS passed on to DoD customers for 8 of the 161 buildings showed that GSA may have overbilled DoD by \$5.5 million, while WHS failed to rebill up to \$3.2 million in valid charges. As a result, billing errors went unresolved, GSA bills went unpaid for extended time periods, DoD customers did not have complete information as to the liability for unpaid rent bills, and GSA overstated accounts receivable from DoD customers.

Responsibilities and Actions of GSA and WHS

GSA Responsibilities for Acquiring Rental Space. At the request of a federal agency, GSA negotiates a lease for space in commercial buildings. GSA leases buildings in the NCR for DoD customers. In those buildings, GSA bills WHS for lease costs, fees incurred during acquisition, operating costs, and a GSA fee. From October 1, 1997, through June 30, 2001, GSA billed WHS about \$781 million for space occupied at various times by DoD customers in 161 buildings in the NCR. In some buildings, GSA provides security and parking. In other buildings, GSA includes security and parking charges in rent bills or delegates the responsibility for maintaining the security to WHS.

Processing Rent Bills Received From GSA. WHS obtains and manages space in commercial buildings within the NCR for DoD customers. WHS reviews the GSA bill and the client billing records (CBRs) that accompany the bill and allocates the cost to the DoD customers in each building based on the assigned space. Some DoD customers may occupy space in several buildings or one building may have several DoD customers as tenants. WHS adds a Building Maintenance Fund (BMF) charge to the bills for buildings that WHS has responsibility for maintaining security or other GSA delegated responsibilities. The DoD customers verify the rent bill and authorize DFAS to pay the bill. DFAS sends the payment to GSA Finance citing the GSA bill number. GSA Finance applies the payments against the appropriate WHS rent bill. Once a bill becomes 46 days old, GSA considers it delinquent.

Write-Off of Prior Unresolved Differences. At the end of FY 1997, GSA and WHS did not agree on the accuracy and status of \$73 million in delinquent GSA rent bills for space assigned to DoD customers in the NCR. Through negotiations, WHS agreed to pay \$3 million to GSA, and GSA agreed to absolve WHS of responsibility for paying the remaining \$70 million. As of October 1, 1997, the account between GSA and WHS was in balance. However, because WHS and GSA failed to take appropriate actions to prevent the recurrence of problems, the account is again out of balance.

GSA Rent Bills and Amounts WHS Rebilled

Differences in Billing Amounts. As of January 2002, GSA had billed WHS \$781 million for space that DoD had occupied in buildings in the NCR from October 1, 1997, through June 30, 2001. WHS determined that GSA improperly billed about \$81.7 million in rent charges and chose not to pass the charges on to DoD customers. However, because WHS neither tracked nor documented the reasons for the billing differences between what GSA billed WHS and what WHS billed the individual DoD customers, WHS did not know the amount each individual DoD customer was under billed by WHS. As a result, we judgmentally selected eight buildings for a detailed review to determine the reasons for the differences between the GSA bills and the amounts WHS rebilled DoD customers. We also reviewed the accounting for the amounts that were actually paid.

Review of Records for Eight Buildings. GSA billed WHS \$124.9 million for the 45-month period from October 1, 1997, through June 30, 2001. WHS did not pass on a net \$8.9 million to the individual DoD customers. GSA and WHS provided supporting records for the eight buildings. Our analysis of those records showed that both GSA and WHS needed to improve the billing practices and ensure that differences in billed amounts were promptly identified, monitored, and resolved. Table 1 identifies, by building, the differences between the amounts that GSA billed and the amounts that WHS rebilled. The last two columns represent our calculation of the dollar value of potential overcharges by GSA as well as potential over and under rebilling charges by WHS.

**Table 1. Differences in GSA and WHS Rent Bills
(October 1, 1997 through June 30, 2001)¹**
(in thousands)

<u>Building</u>	<u>GSA Rent Bill</u>	<u>WHS Rent Rebill</u>	<u>Difference</u>	<u>Potential GSA Overcharge²</u>	<u>Potential WHS Undercharge (Overcharge)²</u>
400 Army Navy Dr.	\$ 22,217	\$ 21,255	\$ 962	\$ 122	\$ 800
601 N. Fairfax	4,119	4,213	(94)	0	(102)
Ballston Tower I	9,984	9,396	588	32	573
Crystal Gateway N.	25,761	22,196	3,565	2,549	1,127
Crystal Plaza VI	5,006	4,094	912	883	31
Hoffman I	15,648	14,764	884	355	531
Hoffman II	29,913	27,738	2,175	1,518	365
Skyline VI	12,262	12,329	(67)	36	(112)
Total	\$124,910	\$115,979	\$8,925	\$5,495	\$3,213

¹The differences in the table represent our best reconstruction based on the data provided by GSA and WHS.

²When combined, the amounts in these columns were more or less than the amounts of the difference column because we could not reconcile to the exact amount of the differences.

Both GSA and WHS made billing mistakes. A detailed discussion of each of the eight buildings is in Appendix B. Based on the records provided to us, we calculated that about \$8.7 million in net adjustments may be needed. GSA sent bills to WHS that were not always accurate and did not always apply payments received from DoD customers to the correct bill. Although WHS appropriately did not rebill most erroneous costs billed by GSA, the rent bills WHS sent to DoD customers often understated the amounts that DoD customers owed. The records available to us may not have included all documentation of agreements, bills, and credits. Customers should not be billed based on data in Table 1. The possible lack of records and the numerous errors identified casts doubt as to the reliability of the GSA and WHS billing process. Further, an effective process to resolve disputed amounts on rent bills did not exist (finding B). Unless GSA and WHS work together to improve communications, billing problems will continue to occur. We did note, however, that since December 1999, DoD customers paid most of the amounts WHS billed to them.

Problems With GSA Bills

GSA overstated amounts charged to WHS for the eight buildings by about \$5.5 million. GSA sometimes billed WHS twice for the same space, billed WHS for space that DoD customers no longer occupied, and did not adjust rental rates appropriately. In addition, security charges were inappropriately included in GSA rent bills for delegated buildings (buildings for which WHS already provided

security), and parking charges were sometimes billed when they were already included in the annual rental rate. As a result, GSA overbilled WHS, WHS spent considerable time trying to review and reconcile GSA bills, and GSA overstated its accounts receivable from DoD.

Duel Charges for the Same Space. GSA sometimes charged twice for the same office space. For two of the eight buildings, GSA overcharged WHS about \$2.7 million for new lease amounts while still billing for old leases. GSA failed to adjust the bills or issue credits for the overcharged amounts. For example, GSA negotiated a new lease for DoD customers occupying space within Crystal Plaza VI effective December 1, 1998. The old lease did not expire until January 31, 1999. From December 1998 through January 1999, GSA billed WHS for both the old and new lease amounts. As a result, GSA overbilled WHS about \$325,000.

Space Not Occupied. GSA billed WHS about \$1.6 million for space that DoD no longer occupied. When WHS returned space to GSA, GSA did not always remove the returned space from the CBRs and adjust the bills accordingly. For example, after giving GSA appropriate notification, WHS returned space in the Hoffman II building to GSA on November 1, 1998. However, GSA billed WHS about \$1 million from November 1998 through March 1999.

Adjusting Rental Rates. GSA did not adjust rental rates appropriately. As a result, GSA charged WHS about \$716,000 more in rent than should have been charged for two leased properties. In both cases, GSA did not promptly reduce the rent until after the effective date of the new lease. For example, GSA combined two leases for Hoffman I and reduced the rental rate. The new rental rate was effective on January 1, 2000, but GSA did not apply the new rate until May 2000. As a result, GSA overcharged WHS by about \$344,000.

Security Charges on Delegated Buildings. GSA inappropriately billed WHS about \$255,000 for security charges on six of the eight buildings. Although GSA delegated responsibility to WHS for providing security on the six buildings, GSA billed WHS for security charges.

Parking Charges Included in Leases. GSA charged WHS about \$166,000 for parking spaces that were already included in the annual rental rate. For example, a lease for Crystal Gateway North included 36 parking spaces in the rental rate. However, from October 1997 through May 1999 and from April through June 2001, GSA billed WHS about \$118,000 for the parking spaces.

WHS Rebilling Procedures

WHS did not rebill DoD customers a net \$8.9 million of the \$124.9 million that GSA billed on the eight buildings we reviewed. WHS did not rebill DoD customers the same amount that GSA billed because WHS found errors in the GSA bills. However, WHS neither maintained an adequate audit trail for the changes made to the amounts charged by GSA nor took sufficient actions to work with GSA to get identified problems corrected. In addition, WHS improperly

computed annual rental rates, charged for parking spaces that were included in leases, and did not adequately communicate with GSA on issues related to rent bills. WHS may not have charged DoD customers about \$3.2 million for the rented space they occupied, and DoD customers did not have complete information as to their liability for unpaid rent bills. The new WHS software application for rebilling rent should provide more visibility over the billing process.

Tracking Charges Made to GSA Bills. WHS did not maintain an adequate audit trail for the changes it made to the amounts charged by GSA on rent bills. If WHS determined that the GSA bill was in error, WHS would adjust the WHS bill for DoD customers before sending the bill to the DoD customers. For the eight buildings, documentation was not available to identify the support for about \$1.7 million in adjustments that WHS made to the GSA bills. For example, from June 1999 through June 2000, WHS applied a rental rate reduction of about \$1 million to the bills of DoD customers occupying Crystal Gateway North without documenting the reason, and GSA had no records authorizing the reduction. The lack of adequate support for the adjustments that WHS made to GSA bills and a formal dispute process (finding B) made it difficult to identify, track, and resolve billing differences and issues.

Miscalculation of Rental Rates. WHS did not always calculate rental rates accurately for DoD customers. WHS personnel did not always increase the annual rental rates when GSA raised its rental rates. Further, WHS sometimes miscalculated the annual rental rates.

Understated Rental Rates. During the first month of each new fiscal year, WHS calculated the annual rate per square foot using data in WHS records. However, when a rate change in the lease occurred during the year, WHS did not always recalculate the annual rental rate. For six of the eight buildings, WHS undercharged DoD customers by about \$2.3 million. For example, GSA negotiated a lease extension on Ballston Tower One that was effective on December 1, 2000. The extension increased the rent by about 55 percent. GSA started billing the new rate in February 2001. However, WHS did not increase the rental rate it charged to DoD customers. As a result, WHS understated the amount DoD customers in the building owed GSA by \$543,000 for the 4-month period from March 1 through June 30, 2001.

Overstated Rental Rates. WHS personnel sometimes miscalculated annual rental rates and overcharged DoD customers by about \$575,000. For example, WHS miscalculated the annual rental rate that was used to bill DoD customers for space in 601 North Fairfax. As a result, DoD customers in the building were overbilled by about \$102,000 in the first nine months of FY 2001.

Billing for Parking Charges. WHS charged DoD customers about \$203,000 for parking spaces that were included in the lease price. For example, for three periods of time between October 1, 1997, through June 30, 2001, DoD customers in Crystal Gateway North were inappropriately charged about \$159,000 for parking spaces that were included in the lease.

WHS Billing Process. WHS used a manual labor-intensive process to calculate its quarterly rent bills to DoD customers. The information received from GSA on monthly rent bills and CBRs was manually entered into a computer software application to produce quarterly bills that were sent to DoD customers occupying buildings in the NCR. In April 2002, WHS implemented a new software application for billing rent to DoD customers. The new program uses the GSA bill to create monthly WHS rent bills and retains a history of prior billings so that a report can be produced to identify variances in the data used to compute bills. The variance report will highlight changes in building rates and square footage occurring in the GSA bills. The new WHS rent rebilling program should make it easier for WHS to rebill, identify changes in the GSA bills, and track differences between GSA bills and amounts that are rebilled to DoD customers.

Payments Made to GSA

Accounting for Rent Payments in GSA Records. GSA Finance did not always apply the rent payment to the correct bill. For example, DFAS Indianapolis, Indianapolis, Indiana, sent a payment for \$350,482 to GSA Finance for the August 1999 bill. However, GSA incorrectly applied the payment to the August 2000 bill. When notified of the situation, GSA Finance told us that the payment would be applied against the correct bill.

Monitoring the Status of Payments. We did not determine whether all DoD customers in the eight buildings paid the entire amount billed by WHS for the 45-month period ending June 30, 2001. DFAS Kansas City, Kansas City, Missouri, had problems accounting for the funds of DoD customers before June 1999 (finding C). However, according to DFAS Indianapolis payment records, since December 1999, DoD customers paid most of the bills from WHS. Also, since November 2000, DFAS Indianapolis prepared a report that it sent to WHS every 2 weeks that showed the status of payments and identified the DoD customers with unpaid rent bills. The report compared the amounts paid with the amounts rebilled by WHS for each DoD customer and identified the reasons that DoD customers did not pay their bills. As of March 8, 2002, the DFAS Indianapolis report showed that three DoD customers owed GSA about \$1.5 million. For example, the Army and Navy had not paid about \$1.4 million for real estate taxes for 1999 and 2000 because they initially questioned the validity of the charges and subsequently were not provided a breakdown of the charges by calendar year. Payment processing should improve further when WHS bills DoD customers monthly and GSA Form 2992, "Adjustment Voucher for Standard Level User Charge Transaction," is used to formally dispute rent charges (finding B).

Conclusion

The GSA rent bills sent to WHS often overstated the amount that was due because the bills contained inaccurate information. However, WHS did not take sufficient actions to work with GSA to get the problems corrected. Detailed analysis of information on 8 of the 161 buildings showed common types of problems that led

to inaccuracies in GSA bills and the bills WHS sent to DoD customers in the NCR. Based on the results of the review of the eight buildings, we expect the errors to be significantly larger if the accuracy of the bills were reviewed for all 161 buildings.

WHS and GSA should form an integrated process action team to resolve significant differences between the amounts that GSA billed WHS and the amounts that WHS rebilled to DoD customers for each of the 161 buildings in the NCR. The integrated process action team should give priority to reconciling significant differences in records from July 1, 2001, through March 31, 2002, so that the new WHS rent rebilling program uses correct information to generate bills. Based on the results, WHS and GSA should make appropriate adjustments to the records. Procedures should also be established to ensure that differences between GSA bills and the amounts that WHS rebills to DoD customers are routinely identified, documented, and tracked to resolution so that mistakes can be promptly corrected and bills can be paid in a timely manner.

Recommendations and Management Comments

A.1. We recommend that the Director, Washington Headquarters Services, in conjunction with the Commissioner, Public Buildings Service, General Services Administration, form an integrated process action team to reconcile the amounts the General Services Administration billed that Washington Headquarters Services disputed. The reconciliation should include the amounts posted to the accounts receivable records at the General Services Administration for all buildings in the National Capital Region. The following priorities should be established:

a. Reconcile significant differences in records from July 1, 2001, through March 31, 2002, so that the Washington Headquarters Services new billing system uses correct information to generate bills.

WHS Comments. WHS concurred and stated that WHS and GSA have formed an integrated process action team that includes DFAS representatives to identify disputed differences between GSA bills and amounts rebilled by WHS. The team has developed data to compare billing amounts, by building, to reconcile significant differences in records from July 1, 2001, through the present. Since the implementation in April 2002 of the new WHS rent rebilling program, significant differences have been identified and resolved within two billing cycles.

b. Reconcile significant differences in records from October 1, 1997, through June 30, 2001.

WHS Comments. WHS concurred and stated that the team has also developed data to compare billing amounts, by building, to reconcile significant differences in records from October 1, 1997, through June 30, 2001. Those records will be

analyzed and decisions will be made by the next team meeting in October 2002. WHS commented that further actions to resolve significant differences would be completed by December 2002.

A.2. We recommend that the Director, Washington Headquarters Services:

a. Establish procedures to identify, document, and track differences between the amounts billed to Washington Headquarters Services by the General Services Administration and the amounts rebilled to DoD customers, so that disputes can be promptly corrected and bills can be paid in a timely manner.

WHS Comments. WHS concurred and stated that WHS, in coordination with GSA, has established procedures to identify, document, and track bill differences so net disputes can be promptly resolved and bills paid in a timely manner.

b. Bill DoD customers for amounts owed that are identified as a result of the joint reconciliation of differences between the amounts billed to Washington Headquarters Services by the General Services Administration and the amounts rebilled to DoD customers from October 1, 1997, through March 31, 2002.

WHS Comments. WHS concurred and stated that once the joint reconciliations are complete, WHS will rebill customers for the amounts still owed to GSA. WHS will rebill those customers in the eight buildings first.

c. Coordinate with the General Services Administration to ensure that:

(1) The Public Buildings Service, National Capital Region issues rent credits to the Washington Headquarters Services for overcharged accounts and enters those credits into the System for Tracking and Administering Real Property.

WHS Comments. WHS concurred and stated that GSA has already issued credits on the eight buildings totaling about \$3.8 million. Four prior rent credit adjustments totaling \$324,957 were identified for the Crystal Plaza VI building. By September 2002, WHS and GSA will reconcile the remaining \$1.6 million in rent credits in the Hoffman II and Crystal Plaza VI buildings. As they occur, all future STAR rent credits resulting from the joint reconciliation will be coordinated with GSA and tracked to ensure that they are posted to rent bills.

(2) The Executive Director, Accounting and Financial Services, Greater Southwest Region, corrects amounts posted to the accounts receivable records based on the resolution of differences between the amounts the General Services Administration billed to Washington Headquarters Services.

WHS Comments. WHS concurred and will monitor the BART system to ensure rent credits are posted correctly.

B. Resolving Rent Disputes

The process for resolving disputes on GSA rent bills for space in commercial buildings in the NCR was not effective. Disputed issues on GSA rent bills were not effectively communicated between WHS and GSA. The rent dispute process was not effective because:

- WHS informally notified GSA of bill discrepancies, but did not have a mechanism in place to formally document, track, or resolve disputes;
- WHS and GSA did not follow the formal procedures in the GSA Pricing Desk Guide for processing rent disputes;
- DoD customers within the NCR did not always have sufficient information to dispute rent bills; and
- 41 of the 44 occupancy agreements between GSA and WHS were not finalized.

Unless GSA and WHS work together to improve communications, billing problems will continue to occur.

Guidance for Disputing Rent Charges

Pricing Desk Guide. First introduced in 1996, the GSA Pricing Desk Guide contains the pricing policies and procedures for the PBS. The Pricing Desk Guide establishes the rent dispute process for all customers that occupy space rented through GSA. The guide describes both a formal and informal process for disputing rent charges. The guide also establishes the need for an occupancy agreement (OA) between GSA and each of its customers.

Formal Process. In the formal process, the customer disputes rent charges by submitting a GSA Form 2992, “Adjustment Voucher for Standard Level User Charge Transaction,” along with supporting documentation, to the appropriate GSA Regional Administrator. The GSA Regional Administrator notifies the customer in writing of the decision on the dispute. If the dispute is denied, the customer can appeal to the PBS Commissioner. If the customer is not satisfied, the dispute can be referred to the Administrator, GSA for a final decision. For disputes on space assignments in the NCR, WHS sent the GSA Form 2992 to the Finance Division, Fort Worth, before it was routed to the GSA NCR.

Informal Process. When a customer informally disputes rent charges, the customer requests the GSA Regional Office to review or explain the basis of a rent charge for a specific space assignment. The informal process for disputing rent charges is usually completed by telephone or e-mail.

Occupancy Agreements. The OA is a complete, concise statement of the business terms governing the relationship between GSA and the customer for a specific space assignment. The OA consists of four parts:

- description of space and services,
- terms and conditions,
- financial summary, and
- signature page.

Although the OA is not a lease, it is the formal mutual agreement between GSA and its customer. GSA and WHS decided to establish an OA for each new building lease and for each lease that expired and was renewed or extended.

Revised GSA Pricing Desk Guide. In March 1998, GSA revised the GSA Pricing Desk Guide. In June 1998, GSA moved from quarterly billings to monthly billings when it implemented the STAR. Many of the changes in the revised pricing guide became effective with the use of STAR.

Rent Bill Disputes

WHS and GSA did not have an effective rent dispute process for commercial buildings in the NCR. Since June 1998, GSA stopped using the guidance in the GSA Pricing Desk Guide for resolving disputed rent bills in the NCR. Neither WHS nor GSA had a mechanism in place to formally document, track, and resolve rent bill disputes.

Process for Disputing Rent Bills in the NCR. Before June 1998, WHS and GSA used GSA Form 2992 to officially report disputes about rent bills. WHS stated that GSA verbally requested that WHS stop using GSA Form 2992. Instead, WHS was asked to contact the GSA realty specialist by telephone or e-mail and provide the realty specialist with the information needed to research the disputed matter.

Tracking Rent Bill Disputes. Neither WHS nor GSA had a mechanism in place to formally document and track the status of rent bill disputes in the NCR.

Use of Informal Process for Disputing Rent Charges. WHS did not establish procedures to document and track the status of rent bill disputes after it stopped using GSA Form 2992 to communicate rent bill disputes with GSA. WHS personnel told us that problems with the GSA bills were brought to the attention of the GSA realty specialists. WHS sometimes annotated on a spreadsheet information regarding a discussion or e-mail related to the dispute. WHS adjusted the bills sent to DoD customers in anticipation that the next GSA rent bill would reflect the correction or adjustment. Although GSA corrected some matters on the subsequent bill, WHS did not track the disputes to ensure that future rent bills reflected the corrections and that GSA accounts receivable

records showed the adjusted balance on the disputed bill. When we tried to obtain information on disputes for eight buildings (finding A), WHS was not able to provide documentation that showed it informed GSA of the disputes that led to WHS billing DoD customers for different amounts than GSA billed WHS.

Handling Disputes from WHS. GSA had not developed procedures to follow up on disputes processed informally by WHS and ensuring that adjustments were posted to the proper GSA bill. GSA realty specialists did not maintain receipt and status records of rent bill disputes from WHS. The realty specialist was to communicate and resolve issues with the customer and inform GSA Finance of rent disputes to be posted in the BART system. GSA realty specialists handled all disputes from WHS, but did not communicate relevant information to GSA Finance when they made billing adjustments in STAR. Consequently, the GSA accounts receivable balance with DoD was misstated and rent collected was not posted to the correct bill in the BART system. GSA Forms 2992 should have been used to track disputes by bill number.

Quantifying Unresolved Disputes. The total number and dollar value of rent bill disputes was unknown because neither GSA nor WHS had sufficient documentation. From October 1997 through June 2001, WHS did not rebill \$81.7 million in rent billings to DoD customers (finding A). However, we could not ascertain that WHS disputed the amounts on the GSA rent bills that WHS did not rebill to DoD customers. As of September 3, 2001, the BART system did not show any amounts that WHS disputed. To communicate and document the rent disputes between GSA and WHS, GSA and WHS need to reinstitute the use of GSA Form 2992 and periodically meet to resolve rent issues.

Occupancy Agreements for Leases in NCR

GSA and WHS did not have mutually agreed upon OAs for each DoD space assignment in the NCR. Since January 2001, GSA provided 44 draft OAs to WHS for leased space that DoD customers occupied. However, WHS initially refused to sign most of the OAs until concerns were adequately addressed. WHS believed that GSA records were not correct and the OAs did not clearly and consistently reflect needed information. As of May 2, 2002, GSA and WHS had both signed only 3 of the 44 OAs. WHS should establish a time-phased plan and process to resolve the remaining OAs in dispute with GSA. If GSA and WHS had signed OAs on each of the buildings, disagreements on the rent bills may have been minimized.

In addition, because DoD customers did not have OAs, DoD customers could not readily dispute their bills. The DoD customers did not have the description of space and services, terms and conditions of the lease, or a financial summary that the OA would have given them. For buildings with OAs, WHS should provide DoD customers with a copy of the OAs and other pertinent information needed by the DoD customers to manage assigned space. For buildings that GSA will not

provide an OA within the next year, WHS should provide DoD customers with relevant information related to the description of space and services, terms and conditions of existing leases, and a financial summary of assigned space.

Recommendations, Management Comments, and Audit Response

B.1. We recommend that the Director, Washington Headquarters Services, in coordination with the Administrator, General Services Administration:

a. Use General Services Administration Form 2992 to communicate and document the rent disputes between General Services Administration and Washington Headquarters Services, and

b. Meet periodically to resolve unsettled rent issues.

WHS Comments. WHS concurred and stated that in February 2002, WHS and GSA reinstituted the use of GSA Form 2992 to document all rent disputes. In April 2002, WHS started using the new rent rebilling software application to identify variances between WHS and GSA data and information for use on the GSA Form 2992. As of August 8, 2002, WHS submitted 457 disputes totaling about \$55.4 million to the GSA Finance Center. Management also stated that WHS and GSA have held periodic meetings since February 2002. Regular communication with the GSA Finance Center occurs with each WHS submission of a GSA Form 2992. Further, WHS and GSA will meet monthly to discuss and resolve new and unsettled rent issues.

B.2. We recommend that the Director, Washington Headquarters Services:

a. Establish a time-phased plan and process to resolve the occupancy agreements in dispute with the General Services Administration and provide relevant information to DoD customers in buildings without occupancy agreements, and

b. Provide each DoD customer with pertinent information needed by the DoD customers to manage assigned space. Provide a copy of the signed occupancy agreements to affected DoD customers. If an occupancy agreement has not been signed or does not exist, provide affected DoD customers with relevant information related to the description of space and services, terms and conditions of existing leases, and a financial summary of assigned space.

WHS Comments. WHS concurred and stated that through a mutual concerted effort, WHS and GSA have resolved the vast majority of the OA disputes. As of August 8, 2002, WHS has received 103 OAs from GSA and has signed and returned 81 OAs to GSA for signature. The remaining 22 OAs require further action by either WHS or GSA before they are signed. WHS and GSA plans to

complete the remaining actions and execute all future OAs in a timely manner. WHS provides pertinent information on all space assignments to its DoD customers in the NCR, including information contained in the OAs.

Audit Response. The WHS comments were partially responsive. Although management stated that they provide pertinent information on all assigned space to its DoD customers in the NCR, WHS did not address the need to provide a copy of the OAs to affected DoD customers. In addition, WHS did not provide DoD customers with the financial information they need to manage their assigned space. Each customer needs a copy of the OA and pertinent financial information to adequately review its bills and dispute charges the customer believes are in error. We request that WHS provide additional comments on the final report.

C. Paying Rent Bills

DoD customers did not pay, or DFAS Kansas City did not forward to GSA, about \$20.7 million in rent bills passed on by WHS. DFAS Kansas City did not establish controls to ensure that funds collected from DoD customers were properly accounted for and paid to GSA. Until November 2000, WHS and DFAS did not have procedures to ensure that all DoD rent bills in the NCR were paid. As a result, GSA rent bills remained unpaid for extended periods of time.

Processing Rent Bills for Payment

When DoD customers receive the WHS rent bills, they are to verify the rent bills and authorize DFAS to pay the bills. Billing problems are to be brought to the attention of WHS for resolution. DFAS sends the payment to GSA Finance citing the GSA bill number. GSA Finance is to apply the payments against the appropriate WHS rent bill. Prior to June 1999, DFAS Kansas City was responsible for accumulating and making rent payments to GSA for DoD customers in the NCR. Since then, DFAS Indianapolis has been responsible for accumulating and making payments to GSA.

DFAS Processing of Rent Payments

Accounting for Older Payments. WHS rebilled DoD customers about \$20.7 million in GSA rent bills that were either not paid by DoD customers or not forwarded to GSA by DFAS Kansas City. DFAS Kansas City did not properly account for rent payments received by DoD customers from October 1997 through May 1999.

DFAS Payment Records. In November 2001, DFAS Kansas City records indicated that nine DoD customers had not paid about \$27.2 million in GSA rent bills. DFAS Kansas City also acknowledged having received about \$6.5 million in rent payments from unknown DoD customers. In December 2001, DFAS Indianapolis requested that each of the nine DoD customers review information DFAS Kansas City compiled and provide either proof that authorization to pay the rent bills had been sent to DFAS or authorization was made to pay the amounts owed. As of March 14, 2002, correspondence and documentation received from DoD customers indicated that the information that DFAS Kansas City had compiled on the status of payments was inaccurate.

Status of Payments. Some DoD customers provided information that showed payment authorizations were processed and DFAS charged the accounts for the rent payments. Other DoD customers authorized DFAS to pay rent bills, including some from FY 1997. DFAS Indianapolis was working with other DoD customers to determine the status of accounts. Table 2 provides the status of payments as of March 14, 2002.

Table 2. Status of Payments Accounted for by DFAS Kansas City
(in thousands)

<u>DoD Customer</u>	<u>Identified Underpayment</u>	<u>Status of Research</u>
WHS	\$ 8,498	Provided documentation showing that funds were paid to DFAS Indianapolis, not DFAS Kansas City.
NIMA	8,476	Provided documentation showing that funds were paid to DFAS Kansas City.
DISA	6,795	Applied \$6.5 million "Unknown" to DISA, research continues.
DLA	1,901	Did not respond to DFAS inquiries.
DSS	1,288	Requested copies of invoices.
JTAMDO	94	Did not respond to DFAS inquiries.
DTRA	61	Error in billing.
MFRC	20	Did not respond to DFAS inquiries.
SOUTHCOM	18	Paid after contacted by DFAS Indianapolis.
Total	\$27,151	
NIMA	National Imagery and Mapping Agency	
DISA	Defense Information Systems Agency	
DLA	Defense Logistics Agency	
DSS	Defense Security Service	
JTAMDO	Joint Theater Air and Missile Defense Organization	
DTRA	Defense Threat Reduction Agency	
MFRC	Military Forces Recruiting Command	
SOUTHCOM	Southern Command	

Although two DoD customers provided documentation showing that they had paid rent bills, DFAS could not provide documentation that they had sent the payment for one of the two to GSA Finance. DFAS Indianapolis and DFAS Kansas City also researched \$6.5 million from unknown DoD customers, and on March 14, 2002, provided documentation that showed the funds related to payments from DISA. Additional funds related to rent payments may also have been in suspense accounts. Poor record keeping by DFAS Kansas City contributed to its inability to determine which DoD customers furnished the funds. Overall, controls did not ensure that funds collected from DoD customers were properly accounted for and paid. As a result, GSA rent bills remained unpaid for extended periods of time. DFAS should work with GSA and affected DoD customers to ensure that authorized rent payments are properly accounted for and unpaid amounts are remitted to GSA.

Improved Operating Procedures. Until November 2000, WHS did not have procedures to ensure that all DoD rent bills in the NCR were paid. DFAS Kansas City transferred the responsibility for processing rent payments received from DoD customers in the NCR to DFAS Indianapolis in the 3rd quarter of FY 1999. After a short transition period, DFAS Indianapolis improved procedures for

paying GSA. In November 2000, DFAS Indianapolis began preparing a report that it sent to WHS every 2 weeks that showed the status of payments and identified DoD customers with unpaid rent bills. The report compared the amount that each DoD customer paid with the amount WHS rebilled for each DoD customer and identified the reasons the DoD customer said they did not pay the bills. Payment processing should further improve in April 2002 when WHS starts to bill DoD customers monthly.

Recommendation and Management Comments

C. We recommend that the Director, Defense Finance and Accounting Service, resolve all outstanding differences between rent payments collected from DoD customers and amounts remitted to the General Services Administration to ensure that authorized rent payments are properly accounted for and collected amounts are remitted to the General Services Administration. Specifically:

- 1. Follow up with DoD customers who did not respond to previous inquiries to ensure that rent payments are properly accounted for and unpaid amounts are collected and remitted to the General Services Administration.**
- 2. Verify funds received from DoD customers to ensure that funds are properly accounted for and sent to the General Services Administration.**
- 3. Coordinate with the General Services Administration to ensure that rent payments are accurately posted in General Services Administration records.**

DFAS Comments. DFAS concurred and stated that all outstanding differences between rent payments collected from DoD customers and amounts remitted to GSA will be resolved and reconciled.

Appendix A. Scope and Methodology

Scope

Work Performed. We evaluated procedures for processing rent bills for space assigned to DoD customers in the NCR. We limited our review of rent bills and payments to DoD customers in the NCR because 93 percent of all DoD delinquent rent bills were concentrated in the NCR. GSA billed WHS a total of about \$781 million for space occupied by DoD customers in 161 buildings in the NCR from October 1, 1997, through June 30, 2001. WHS rebilled \$699.3 million of the \$781 million to DoD customers. To determine why WHS rebilled DoD customers \$81.7 million less than GSA billed WHS, we initially reviewed bills covering the period from July 1999 through June 2001. We judgmentally selected eight buildings for a detailed review. From July 1999 through June 2001, WHS rebilled the DoD customers in five of the eight buildings at least \$500,000 less than the amount that GSA billed WHS. For the other three buildings, WHS rebilled DoD customers more than GSA billed WHS. We reviewed GSA bills totaling \$124.9 million for the eight buildings for the period October 1, 1997, through June 30, 2001. We reviewed WHS records that supported the \$116 million that WHS rebilled DoD customers in the eight buildings and \$8.9 million (net) that was not passed on to DoD customers.

We evaluated the procedures used by DFAS to pay GSA. We also reviewed the actions taken by DFAS Kansas City, DFAS Indianapolis, and DoD customers to resolve \$27.2 million in GSA rent bills that DFAS Kansas City records indicated had not been paid. Further, we reviewed how GSA Finance applied the payments received from DFAS to the WHS bills in the BART system. In addition, we reviewed the procedures that DoD and GSA used to resolve delinquent rent bills for space assigned to DoD customers in commercially leased buildings in the NCR.

General Accounting Office High-Risk Area. The General Accounting Office has identified several high-risk areas in the DoD. This report provides coverage of the Defense Financial Management high-risk area.

Methodology

We compared the GSA bills sent to WHS to the amounts WHS rebilled to DoD customers, considering the BMF charges on delegated buildings and other adjustments. We reviewed procedures and records generated by the Assignment Record and Rent Management/Office of the Secretary to Defense Rebill system used by WHS personnel to generate rent bills sent to DoD customers. To determine the reasons for the differences between the amounts GSA billed WHS and the amounts WHS rebilled DoD customers for the eight buildings, we performed a detailed review of GSA bills, CBRs, and WHS records. To evaluate procedures for paying rent bills, we reviewed DFAS Indianapolis procedures for

obtaining and processing information obtained from DoD customers that was needed to make payments to GSA. We also compared GSA accounts receivable records with DFAS Indianapolis payment records.

To determine the procedures WHS used to resolve delinquent GSA rent bills, we reviewed records and interviewed personnel in the Real Estate and Facilities Directorate, Space Policy and Acquisition Division. We also interviewed GSA personnel in the Public Buildings Service, Property Acquisition and Realty Services, NCR to identify procedures GSA used to resolve delinquent DoD rent bills. We reviewed applicable guidance documents and the information posted in the BART system on WHS bills from July 1, 1999, through June 30, 2001. To determine the procedures for reviewing and disputing bills and processing payment authorizations to DFAS, we visited or contacted four DoD customers that occupied one or more of the 161 buildings. We did not contact each of the DoD customers that occupied the eight buildings selected for review. The Office of the Inspector General of the Department of the Department occupied parts of two of the eight buildings we selected for a detailed review.

Use of Computer-Processed Data. We relied on computer-processed data in the GSA BART system and STAR. We also relied on the WHS Assignment Record and Rent Management/Office of the Secretary to Defense Rebill system. Although we relied on computer-processed data from those systems, we did not evaluate the adequacy of the systems' general and application controls. However, we established data reliability for the information we reviewed on the eight buildings by comparing data output to source documents. Our comparison disclosed that the data were sufficiently reliable to support the audit conclusions and recommendations.

Audit Dates and Standards. We performed this audit from June 2001 through May 2002, in accordance with generally accepted government auditing standards. We did not evaluate the management control program because GSA requested the audit. Our analysis of information on two buildings that we occupied may be perceived to be not totally independent. However, we performed the same detailed analysis of information on each of the eight buildings we reviewed.

Prior Coverage

Inspector General, GSA, Report No. A000986/B/6/F01004, "Review of GSA's Billing and Collection Processes for Federal Customers," January 26, 2001

Appendix B. Buildings Reviewed

We reviewed the differences in billings between GSA and WHS over the period October 1, 1997, through June 30, 2001, for eight buildings in the NCR. Based on the records provided to us, we calculated that \$8.7 million in net adjustments may need to be made. GSA overstated amounts charged to WHS by about \$5.5 million and WHS understated amounts charged to DoD customers by about \$3.2 million. GSA sent bills to WHS that were not always accurate. Although WHS appropriately did not rebill most erroneous costs billed by GSA, the rent bills WHS sent to DoD customers often understated the amounts that DoD customers owed. The amounts we calculated as incorrect charges were based on available documentation and may not have included all agreements, bills, and credits.

400 Army Navy Drive

GSA overcharged WHS by \$121,852. GSA inappropriately billed WHS a total of \$74,029 for building security and \$47,823 for parking.

- GSA billed WHS a total of \$74,029 for building security charges for March 1999, October 1999 through April 2000, and October 2000 through June 2001.
- GSA billed WHS a total of \$47,823 for parking spaces that were included in the lease price in FYs 1998 and 1999.

WHS undercharged the DoD customers in 400 Army Navy Drive by a total of \$799,844. WHS undercharged DoD customers by \$844,112 by incorrectly calculating the rental rate. WHS overcharged DoD customers by \$44,268 for parking.

- The annual rental rates WHS billed DoD customers in FYs 1999, 2000, and 2001 were not calculated correctly. The rate charged was understated by \$.67 per square foot for the 2nd through 4th quarters of FY 1999, \$.24 per square foot in FY 2000, and \$.32 per square foot in FY 2001. In total, WHS undercharged DoD customers by \$844,112.
- WHS billed DoD customers for parking from October 1998 through September 1999. Because parking was included in the lease cost, WHS overcharged DoD customers by \$44,268.

Crystal Gateway North

GSA overcharged WHS by a total of about \$2.5 million. GSA double billed \$2,406,389 and inappropriately charged \$118,272 for parking and \$24,513 for security.

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- GSA combined multiple leases from March through October 1999 and billed twice for the same space, but never issued WHS a credit for the double billing. In January 2000, GSA signed a new lease and issued a new CBR that replaced the existing lease and CBR. The new CBR was back billed to the start of the lease date, June 1999. GSA did not issue a credit to WHS for \$1,181,956. In January 2000, GSA issued CBR No. VA0057202 to replace various other CBRs. The new CBR back billed the new amount to March 1999. The CBRs that were replaced also billed WHS for \$1,224,433 for the same space.
 - GSA billed WHS a total of \$118,272 for parking spaces that were included in the lease from October 1997 through May 1999 and from March through June 2001.
 - GSA billed WHS a total of \$24,513 for security charges on various CBRs for various times from August 1998 through June 2001.

WHS undercharged DoD customers in Crystal Gateway North by \$1.1 million. WHS inappropriately reduced the rental rate charged to DoD customers and undercharged its customers by \$1,024,932. WHS also failed to include the GSA PBS fee, totaling \$260,691, in the calculation of its rental rate. In addition, WHS inappropriately charged its DoD customers \$158,662 for parking. In total, DoD customers were undercharged by \$1,126,961.

- WHS took a rental rate reduction of \$1,024,932 from July 1999 through June 2000 that GSA did not authorize.
- From February through September 2000, GSA included a PBS fee in the WHS bill that totaled \$260,691. However, WHS did not adjust its annual rental rate to its DoD customers to include the PBS fee.
- GSA inappropriately charged \$158,662 for parking from October 1997 through September 2000 and from April through June 2001. WHS passed the charges on to its DoD customers.

Hoffman I

GSA overcharged WHS by a total of \$355,221. GSA inappropriately charged \$11,555 for security and overstated its rental rate and overcharged WHS by \$343,666.

- GSA charged \$11,555 to WHS for security charges from April through June 2001. Since that was a delegated building, a charge for security should not have been included in the bills.
- In January 2000, two leases were combined and billed as CBR No. VA0019547. As a result, the annual rental rate decreased from \$21.98 to \$18.07 per square foot. Although the rental rate reduction

should have occurred in January 2000, GSA did not apply the new rental rate until May 2000. GSA overcharged WHS by a total of about \$343,666 from January through April 2000.

WHS undercharged DoD customers in Hoffman I by \$531,486. WHS undercharged DoD customers by \$69,134 by inappropriately lowering the rental rate. WHS also failed to increase the annual rental rate and undercharged the DoD customers by \$462,352.

- Instead of increasing the rental rate by \$.0125 per square foot to compensate for an increase in BMF charges, WHS lowered the rental rate. WHS undercharged DoD customers by \$69,134 from October 2000 through March 2001.
- In April 2001, GSA raised the annual rental rate by 32 percent. However, WHS did not raise rental rates. The total amount undercharged during April, May, and June 2001 was \$462,352.

Hoffman II

GSA overcharged WHS by a total of \$1,518,433. GSA inappropriately charged \$1,074,022 for space that was turned in by WHS. GSA also inappropriately charged WHS a total of \$72,013 for building security and did not give WHS a credit for \$372,398 for an entitled reduction in rates.

- On November 1, 1998, WHS returned approximately 175,000 square feet of space in the Hoffman II building to GSA. However, GSA continued to charge WHS for the space until March 1999. GSA billed WHS \$1,074,022 during the four months.
- GSA signed a supplemental lease agreement that decreased the rental rate beginning on August 6, 1999. However, GSA did not apply the credit until October 1, 1999. GSA did not issue a credit to WHS for \$372,398 that was overcharged to WHS in August and September 1999.
- GSA inappropriately billed WHS \$72,013 for security charges from October 1999 through June 2001.

WHS undercharged DoD customers in Hoffman II by \$365,145. Since March 1999, WHS charged DoD customers for a different amount of space than GSA charged WHS. From March 1999 through February 2000 and from May 2000 through June 2001, WHS overcharged its customers by \$438,088. In March and April 2000, WHS undercharged its customers by \$91,577. The following table quantifies the amounts that WHS incorrectly charged DoD customers.

WHS Space Charges in Hoffman II			
<u>Billing Period</u>	<u>Square Feet Overcharge (Undercharge)</u>	<u>Monthly Cost per Square Foot*</u>	<u>Amount of Overcharge (Undercharge)</u>
March 1999	12,756	\$1.81	\$ 23,077*
April - September 1999	13,963	1.81	151,564*
October - December 1999	8,511	1.26	32,172
January - February 2000	43,481	1.26	109,572
March 2000	(52,518)	1.26	(66,173)
April 2000	(20,162)	1.26	(25,404)
May - June 2000	9,072	1.26	22,861
July - September 2000	5,056	1.87	28,314*
October 2000 - March 2001	5,056	2.15	65,071*
April - June 2001	848	2.15	5,457*
Total			\$346,511*

*The monthly cost per square foot is rounded and, if used, would cause the amount of overcharge to be slightly different than actual amount of overcharge in the table.

In third quarter FY 2001, GSA billed WHS \$506,328 in other charges. In June 2001, GSA billed WHS additional charges of \$205,328. Initially, WHS was not sure what the charges were for and did not rebill DoD customers. WHS later found out that those charges were for real estate taxes and subsequently billed the DoD customers.

Skyline VI

GSA overcharged WHS by a total of \$36,180. GSA inappropriately charged \$22,230 to WHS for security charges and did not give \$13,950 to WHS in operations delegation credits. GSA also did not apply a credit to the proper monthly bill.

- GSA inappropriately charged WHS \$22,230 for building security from August 1999 through April 2000 and from October 2000 through June 2001.
- GSA failed to give WHS a total of \$13,950 for an operations delegation credit for August and September 1999.
- GSA did not post a credit to the correct GSA monthly bill. GSA gave WHS a credit for Building Specific Operating charges in October 1998. However, WHS was billed for Building Specific Operating charges in March 1999.

WHS overcharged DoD customers in Skyline VI by \$112,115. By mistakenly billing for additional GSA charges, WHS overcharged DoD customers by

\$126,841. WHS also undercharged DoD customers by \$14,726 because it did not increase its annual rental rate.

- Starting in November 1998, GSA mistakenly billed WHS by \$11,531 per month for building specific operating charges. GSA discovered the mistake and credited WHS on the March 1999 bill for the amount overcharged from November 1998 through February 1999. However, WHS included the GSA operating charge in calculating the annual rental rate. WHS charged DoD customers \$126,841 for those charges for 11 months.
- GSA increased the annual rental rate in November 1998. WHS did not adjust the rental rate. DoD customers were not charged the \$14,726 cost increase.

Crystal Plaza VI

GSA overcharged WHS by a total of \$883,260. GSA double billed WHS \$324,957 and inappropriately charged \$558,277 for space WHS returned to GSA.

- In October 1999, GSA signed a new lease that was less than the existing lease. GSA billed WHS at the new lease rate back to December 1998. However, GSA also billed WHS under the old lease for the same space from December 1998 through May 1999. For the 6 months, GSA overcharged WHS by \$324,957.
- GSA billed \$558,277 to WHS for 30,605 square feet of space in the building that WHS returned to GSA as far back as April 1997. GSA continued to bill for the space until the lease expired in January 1999. The \$558,277 was overbilled for the period April through November 1998. Our analyses began with the April 1998 rent bills. The billings for December 1998 and January 1999 were included in the \$324,957 double billing amount.

WHS undercharged DoD customers in Crystal Plaza VI by \$30,518. WHS undercharged DoD customers by a total of \$43,038 because it failed to recalculate the rental rate in FY 1999 and increase its rental rate when GSA increased operating costs. WHS also miscalculated its FY 2001 annual rental rate and overcharged its DoD customers by \$12,520.

- Because of a lease holdover, WHS billed DoD customers in FY 1999 at the annual rate charged in FY 1998. When the new lease was signed, WHS did not recalculate the FY 1999 annual rate. The bills for FY 1999 were understated by a total of \$39,293.
- At the beginning of FY 2001, WHS understated the annual rental rate because it calculated the rate using 7,082 square feet less than it should have used. By using the incorrect rental rate, WHS overcharged DoD customers by \$12,520.

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- From February through June 2001, WHS understated bills to DoD customers by \$3,745 because it did not increase the rental rates when operating costs from GSA increased.

Ballston Tower I

GSA inappropriately charged WHS by a total of \$31,960 for building security. On one CBR, GSA charged WHS for building security on most of the monthly rent bills from October 1999 through June 2001. On another CBR, GSA charged WHS for security charges for all but five months from October 1999 through June 2001.

WHS undercharged DoD customers in Ballston Tower I by \$573,450. WHS failed to adjust the annual rental rate when a new CBR was added and when a new lease was effective.

- WHS did not recalculate the rental rate for the remainder of FY 1999 when GSA added a new CBR in May 1999. WHS should have increased the annual rental rate to cover the \$30,356 additional rent charge.
- In March 2001, GSA entered into a new lease that raised the GSA annual rental rate by about 55 percent. WHS did not increase its annual rental rate. When the new rental rate is applied from March through June 2001, WHS undercharged DoD customers by \$543,094.

601 North Fairfax

WHS overcharged DoD customers in 601 North Fairfax by \$101,846 because WHS did not use the correct data to calculate the annual rental rate for FY 2001. WHS overstated the annual rental rate by \$3.47 per square foot. As a result, WHS overcharged DoD customers by \$11,316 per month from October 2000 through June 2001.

Appendix C. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller)/Chief Financial Officer
Deputy Chief Financial Officer
Deputy Comptroller (Program/Budget)

Department of the Army

Auditor General, Department of the Army

Department of the Navy

Naval Inspector General
Auditor General, Department of the Navy

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Department of the Air Force

Other Defense Organizations

Director, Defense Finance and Accounting Service
Director, Washington Headquarters Services

Non-Defense Federal Organizations

Office of Management and Budget
General Services Administration

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Reform
House Subcommittee on Government Efficiency, Financial Management, and
Intergovernmental Relations, Committee on Government Reform
House Subcommittee on National Security, Veterans Affairs, and International Relations,
Committee on Government Reform
House Subcommittee on Technology and Procurement Policy, Committee on
Government Reform

Defense Finance and Accounting Service Comments



DFAS-DAS

DEFENSE FINANCE AND ACCOUNTING SERVICE


1931 JEFFERSON DAVIS HIGHWAY
ARLINGTON, VA 22240-5291

JUL 29 1995

MEMORANDUM FOR DIRECTOR, FINANCE AND ACCOUNTING DIRECTORATE,
OFFICE OF THE INSPECTOR GENERAL, DEPARTMENT OF
DEFENSE

SUBJECT: Report on Processing General Services Administration Rent Bills for DoD
Customers in the National Capital Region (Project No. D2001FI-0126)

Our response to the subject audit is attached. The point of contact is Ms. Heather Wilson,
(703) 607-0750 or DSN 327-0750.


Robert P. McManara
Director, Accounting

Attachment:
As stated

cc:
DFAS-DDI
DoDIG

**DFAS Comments on Report on Processing General Services Administration Rent Bills for
DoD Customers in the National Capital Region (Project No. D2001FI-0126)**

Responses to Recommendations.

Recommendation C1. We recommend that the Director, Defense Finance and Accounting Service, resolve all outstanding differences between rent payments collected from DoD customers and amounts remitted to the General Services Administration to ensure that authorized rent payments are properly accounted for and collected amounts are remitted to the General Services Administration. Specifically, follow up with DoD customers who did not respond to previous inquiries to ensure that rent payments are properly accounted for and unpaid amounts are collected and remitted to the General Services Administration.

Recommendation C2. We recommend that the Director, Defense Finance and Accounting Service, resolve all outstanding differences between rent payments collected from DoD customers and amounts remitted to the General Services Administration to ensure that authorized rent payments are properly accounted for and collected amounts are remitted to the General Services Administration. Specifically, verify funds received from DoD customers to ensure that funds are properly accounted for and sent to the General Services Administration.

Recommendation C3. We recommend that the Director, Defense Finance and Accounting Service, resolve all outstanding differences between rent payments collected from DoD customers and amounts remitted to the General Services Administration to ensure that authorized rent payments are properly accounted for and collected amounts are remitted to the General Services Administration. Specifically, coordinate with the General Services Administration to ensure that rent payments are accurately posted in General Services Administration records.

Management Comments. Concur. All outstanding differences between rent payments collected from DoD customers and amounts remitted to the General Services Administration will be resolved and reconciled as recommended.

Estimated Completion Date. September 30, 2002.

Washington Headquarters Services Comments



DEPARTMENT OF DEFENSE
WASHINGTON HEADQUARTERS SERVICES
1155 DEFENSE PENTAGON
WASHINGTON, DC 20301-1155



AUG 20 2002

MEMORANDUM FOR INSPECTOR GENERAL, DIRECTOR, FINANCE AND
ACCOUNTING DIRECTORATE

SUBJECT: Management Comments

As requested, attached are the Washington Headquarters Services (WHS) comments in response to the draft Report on Processing General Services Administration Rent Bills for DoD Customers in the National Capital Region (Project No. D2001FI-0126).

If I can be of any further assistance, please contact me.

Howard G. Becker
Acting Director

Attachment
a/s



**Washington Headquarters Services Response
to the Department of Defense Inspector General Report On
Processing General Services Administration Rent Bills for
DoD Customers in the National Capital Region
(Project No. D2001FI-0126)**

Finding A – Processing Rent Bills in the National Capital Region

WHS concurs with the findings and provides the following comments.

WHS Rent re-billing mistakes beginning in FY 1998, occurred in part, due to the GSA significantly changing its Rent billing business practice. GSA changed from - billing by building on a quarterly basis to - billing by lease on a monthly basis and WHS had little notice prior to the effective date of change to migrate to another software application that would be compatible to GSA's new business practice. Using its existing Rent billing software application, WHS had to make numerous manual calculation adjustments to convert monthly bills by lease to quarterly bills by building resulting in the types of miscalculations addressed in this finding.

Recommendations

WHS concurs with the recommendations and provides the following comments and action plans.

A.1. - The Director, WHS and the Commissioner, PBS, GSA have formed an integrated process action team (IPT). Since March 2001, the Real Estate & Facilities Directorate (RE&F), Space Policy & Acquisition Division (SPAD), as the Rent element of an on-going GSA/DFAS Joint Solutions Team (JST), has partnered with GSA/NCR and Central Office, GSA Finance Center and DFAS Indianapolis and Kansas City to identify disputed differences between GSA bills and WHS re-bills for resolution.

In May 2002, the JST met in Ft. Worth, TX and the Rent element of the team established the recommended IPT in response to the "discussion" version of the draft report before issuance of this report. The IPT includes representatives from (1) WHS, (2) DFAS Indianapolis (IN) and Kansas City (KC), (3) GSA NCR, (4) GSA Central Office (Revenue Office) and (5) GSA Finance Ft. Worth. In July 2002, the IPT met again in Columbus, OH to develop an action plan to address the recommendations of the draft report.

a. - WHS, DFAS-IN and GSA have developed data to compare billing amounts, by building, to reconcile significant differences in records for the period from July 1, 2001 through the present. Since the implementation of the new WHS Rent re-billing program in April 2002, significant differences have been identified and resolved within two billing cycles.

b. - WHS, DFAS-IN and GSA have also developed data to compare billing amounts, by building, to reconcile significant differences in records for the period from October 1, 1997 to June 30, 2001. These records will be analyzed and decisions made by the next IPT meeting in October 2002, to determine the extent of the reconciliation to resolve. Further actions by GSA and/or WHS to resolve these significant differences will be completed by December 2002.

A.2.

a. – The Director, WHS has established with GSA procedures to identify, document and track to resolution bill differences so disputes can be resolved and bills paid timely.

b. – SPAD is currently reconciling WHS re-billing amounts understated for the 8 buildings in Appendix B of this report. SPAD will re-bill those customers for the amounts still owed to GSA from October 1, 1997 to the present, by October 2002. Once the inventory of possible additional understated re-billing amounts for other NCR buildings has been jointly reconciled between WHS and GSA, SPAD will re-bill those customers for the amounts still owed to GSA from October 1, 1997 to the present. SPAD will rebill those customers by December 2002.

c.

(1) GSA, PBS, NCR has issued credits on recent WHS Rent bills in the amount of \$3,758,039 pertaining to the eight buildings in Appendix B of this report. Four prior Rent credit adjustments by GSA of \$324,957 in October 1999 were identified for the Crystal Plaza VI building. By September 2002, WHS and GSA will reconcile the remaining \$1,632,325 in Rent credits in the Hoffman II and Crystal Plaza VI buildings. As they occur, all future STAR Rent credits, resulting from further reconciliation to comply with recommendation A.2.a., will be coordinated with GSA, PBS, NCR and tracked to ensure their posting to future WHS Rent bills.

(2) SPAD is monitoring current and, as they occur, will monitor all future Rent credits on GSA Finance's on-line accounts receivable tracking system (BART) to ensure correct postings.

Finding B – Resolving Rent Disputes

WHS concurs with the findings and provides the following comment.

WHS successfully utilized the GSA Form 2992 in documenting Rent disputes until GSA instructed us to stop using the form in June 1998. WHS's use of the 2992's provided the required documentation to resolve over \$73M in disputes with GSA prior to FY 1998.

Recommendations

WHS concurs with the recommendations and provides the following comments and action plans.

B.1.

a. – In February 2002, SPAD and GSA re-instituted the use of the GSA Form 2992 to document all disputes of WHS's Rent account \$9799. Since then, SPAD has submitted disputes, and will continue to submit, for the periods FY 1998-2002 to GSA for action. As of August 8, 2002, SPAD has submitted 457 disputes totaling \$55,402,905 to the GSA Finance Center. GSA returned 44 disputes totaling \$10,703,946 as prior year duplicates. The GSA Finance Center has logged 288 disputes totaling \$35,118,175.00 for tracking. GSA NCR has processed 126 disputes for \$ 17,655,929 and will complete the processing of the remaining 7 disputes for \$ 125,670 by September 2002. SPAD and GSA will continue to use the formal dispute process utilizing 2992 Forms.

For all April 2002 and forward disputes, the new WHS Rent re-billing software application, Federal Real Property Management (FRPM), will identify all variances between GSA and WHS data at the time of importing the monthly electronic GSA STAR Rent bill. At that time, WHS will determine if the variances constitute a dispute with GSA. If so, FRPM will generate all the

data on the 2992 Dispute Forms and SPAD will send them to GSA Finance Center for action. Resolution should occur within two billing cycles.

b. - SPAD, GSA NCR and Central Office have held several periodic meetings since February 2002. Regular proactive telephone and electronic communication with GSA Finance Center occurs with each WHS submission of 2992 Forms. Effective August 2002, WHS and GSA have established standing monthly meetings to discuss and resolve new and unsettled Rent issues.

B.2.

a. - Through a mutual concerted effort, SPAD and GSA have resolved the vast majority of occupancy agreement (OA) disputes. As of August 8, 2002, SPAD had received 103 OA's from GSA. SPAD had signed 81 OA's and returned them to GSA for their signature. The remaining 22 OA's to be signed require further action by SPAD for 7 and 15 OA's require further action by GSA. SPAD and GSA will complete these further actions and execute all future OA's in a timely manner.

b. - WHS provides pertinent information on all space assignments to its NCR Components including information contained in GSA OA's.

Finding C – Paying Rent Bills

Note: The Director, DFAS is responsible for actions responding to these findings and recommendations. However, WHS supports DFAS in paying GSA Rent bills. SPAD provides a record of each Component's Rent amount due, by the specific GSA Rent bill number, for each billing cycle to assist in the bill paying process.

Audit Team Members

The Defense Financial Auditing Service Directorate, Office of the Assistant Inspector General for Auditing of the Department of Defense prepared this report. Personnel of the Office of the Inspector General of the Department of Defense who contributed to the report are listed below.

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